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Alberta ECONOMIC OUTLOOK

NOVEMBER, 1973

ALBERTA – NATIONAL AFFAIRS

Recent developments in world oil markets are cause for reappraisal of Canadian oil policy. When the National Oil Policy was originally formulated the Federal government, while agreeing to the establishment of a Canadian market for western crude, preserved the market east of the Ottawa Valley for imported oil, which at the time was cheaper. Now, however, Alberta oil could probably be delivered in Montreal for about $5.00 a barrel which compares very favourably with the price of imported Venezuelan crude, the posted price of which was recently raised to more than $7.00 a barrel. Quebec refineries have already asked Alberta's Energy Resources Conservation Board for permission to buy 53,000 barrels of crude a day from the province during November, and the extension of the Interprovincial pipeline from Sarnia to Montreal is still a live issue in Ottawa. If it continues to be Federal government policy to maintain the price of western crude at a price less than that which prevails in world markets it can only be a matter of time before pressure builds up in the east to have the present artificial division of the Canadian oil market removed.

On October 16th the Department of Industry, Trade and Commerce announced that financial assistance to foster the development of consortia of small to medium sized firms wishing to sell in export markets will be provided under a new section of the Programme for Export Market Development. According to the announcement "Assistance will be in the form of a repayable contribution covering up to one-half of the approved costs incurred in the formation and initial operation of the consortium. Repayment will be a percentage of the sales of the consortium.

Normally there should be at least five companies in the group. To be eligible for assistance companies must be established and operating in Canada, manufacturing products which have a substantial Canadian content, and are able to demonstrate potential for a significant increase in exports through the use of consortia marketing." It is pointed out that export consortia do "not conflict in principle with the provisions of the Combines Investigation Act."

ALBERTA – PROVINCIAL AFFAIRS

Indications are that the Travel Industry in Alberta has experienced a good year in 1973 so far. Preliminary statistics indicate that border crossings by non-residents into Alberta increased 7.9 percent during the period January to August.

It is likely that devaluation of the American dollar and the consequent downward float of the Canadian currency were major contributing factors because lower exchange rates have the effect of discouraging Canadians and Americans from visiting Europe and make travel for them within the North American continent relatively less expensive. The lower rates also make it less expensive for Europeans and Japanese to visit Alberta.

The long-term outlook for the tourist industry, appears to be favourable. Over the next decade tourist revenues are expected to increase at an annual average of 10 percent. Factors contributing to this increase are increasing leisure time, education and income levels, the growing pressure of urban life and expanding population.

In addition improvements in transportation such as better roads, faster, safer, more comfortable and spacious aircraft and a relative decline in the price of air travel will benefit the tourist industry.

Finally, the 1970's will witness two relatively major events in Alberta which could significantly increase tourism. In 1974, Alberta will commemorate the 100th anniversary of Royal Canadian Mounted Police activity in the Province, and in 1978, Edmonton and Alberta will host the internationally famous British Commonwealth Games.

ALBERTA – INTERNATIONAL AFFAIRS

The Arab oil producers have finally carried out their threat to restrict the supply of oil to those countries which they categorize as pro-Israeli or anti-Arab, viz. the EEC countries, the U.S.A. and Japan. The Saudi Arabian Government has cut the production of crude oil by 10 percent and has placed an embargo on all shipments of crude oil and refined products to the U.S. and to locations known to be processing oil for shipment to the U.S. Planned production for October was cut back by 2.3 million barrels a day.

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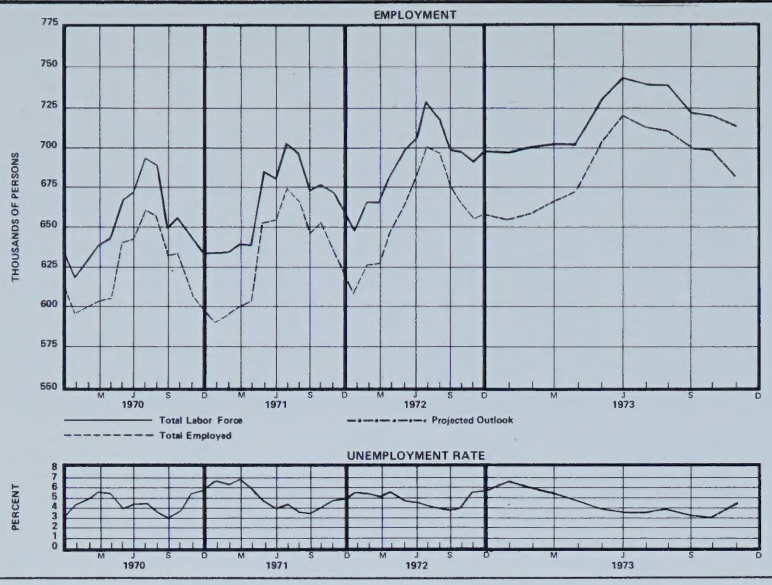
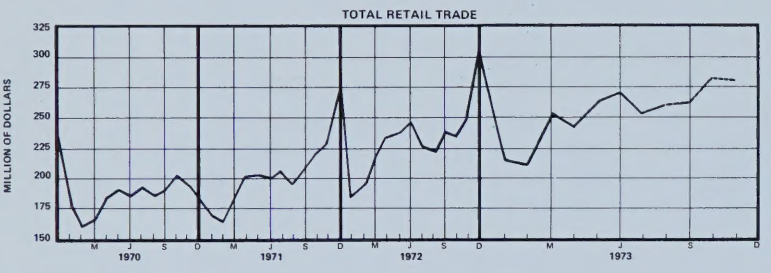


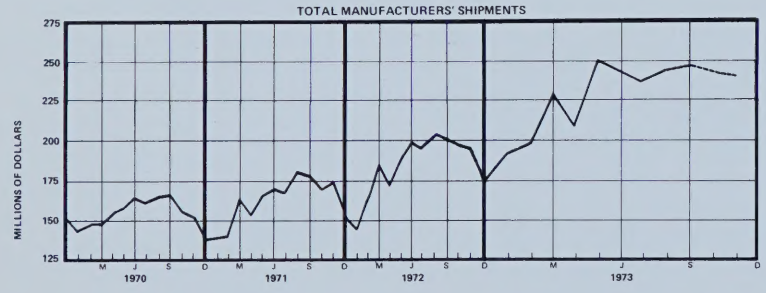
EMPLOYMENT

The declines in the labour force and total employed in October were not as extensive as expected. October's unemployment rate was 3.1 percent and the labour force and total employed declined slightly to 721,000 and 699,000, respectively, resulting in 22,000 unemployed. October's figures reflect the fact that the growth in employment continues to exceed the growth in the labour force, resulting in a lower unemployment rate by .1 percent from the previous month and .6 percent less than October, 1972. For November, the labour force is expected to be approximately 714,000, with the total employed and unemployed at 683,000 and 31,000 respectively. Prospects for December are for further seasonal declins in the labour force and total employed as the weather becomes more severe.



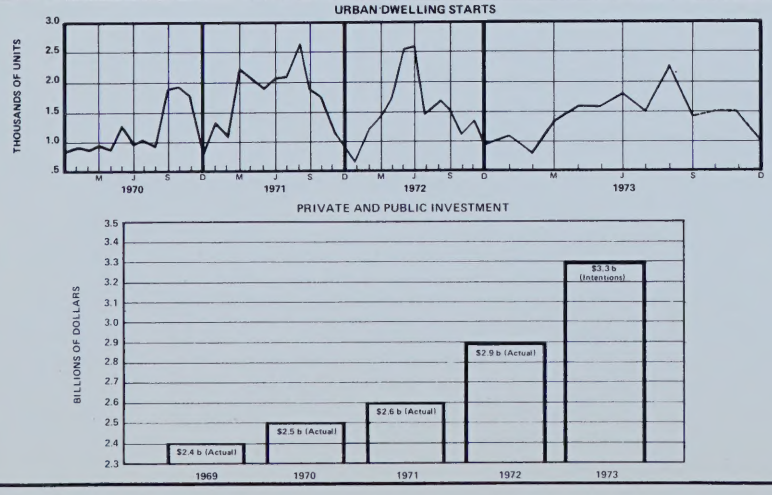
RETAIL TRADE

Total retail trade to the end of August, 1973 is estimated at $1,968 million, an increase of almost 13 percent over the same period in 1972. Preliminary results for August indicate a total of close to $262 million, an increase of 17 percent from the same month in 1972. Total retail trade in October and November are forecast to reach over $282 million and $280 million, respectively. December's total should substantially above that expected in November due to Christmas purchases.



MANUFACTURING SHIPMENTS

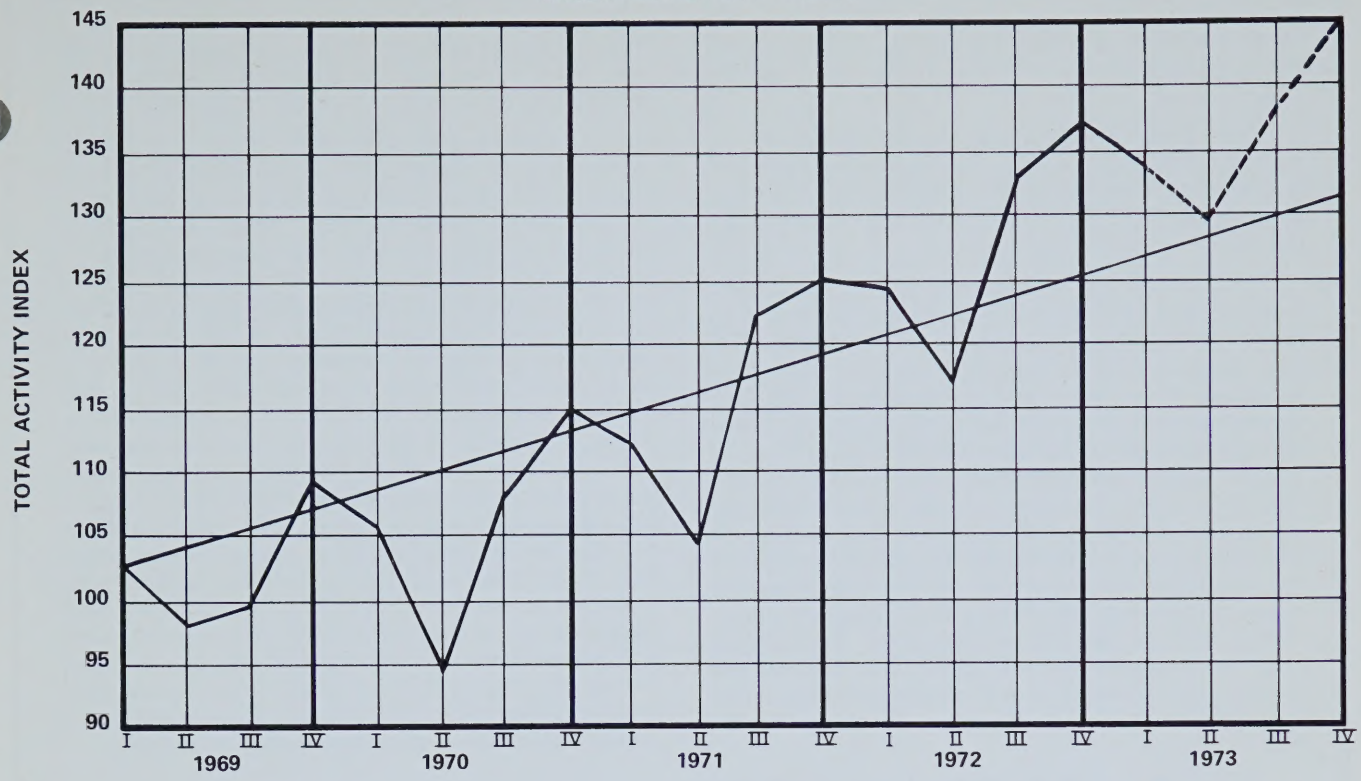
Continued strength in the total value of shipments in coming months is anticipated with October and November totals to be close to $242 and $240 million, respectively. To the end of August, 1973, total manufacturing shipments in Alberta reached $1.811 million, a 20 percent increase over the same period in 1972. August's total rose by nearly 15 percent over August, 1972, to $244 million. The value of shipments for December will be reduced as part of the usual seasonal declines experienced at this time of year.



HOUSING

Urban dwelling starts in September, 1973 totalled 1,418, a decrease of 6.3 percent from the same month in 1972. To the end of September, total starts reached 12,757 a decrease of over 14 percent from the same period in 1972. The resulting total for the third quarter of 1973 of 4,578 was 4.4 percent less than the equivalent period one year ago, and 3.8 percent below the forecast total for the third quarter of 1973, at 4,700. If these present trends continue, combined with the usual seasonal decline in activity during the winter, the fourth quarter forecast of 4,000 starts may appear somewhat optimistic.

ALBERTA'S ACTIVITY INDEX



PERTINENT ECONOMIC INDICATORS FOR THE PROVINCE OF ALBERTA

INDICATOR	Percentage Change in Volume Activity Total Year 1971 - 1970	 Total Year 1972 - 1971	 Year to Date 1973 - 1972
MANUFACTURING			
Slaughtered Meat Production	+13.6	+ 3.3	- 2.3 (Jan. – Sept.)
Slaughtered Meat Exported	+12.6	+ 5.3	- 1.3 (Jan. – Sept.)
Refinery Production	+10.7	+21.4	+ 8.8 (Jan. – Aug.)
Cement Production	+ 4.5	+ 3.5	+ 8.0 (Jan. – Sept.)
MINING			
Oil Production	+ 9.4	+20.8	+24.0 (Jan. – Aug.)
Gas Production	+10.1	+16.8	+ 8.6 (Jan. – Aug.)
Footage Drilled	+ 1.8	+21.9	+31.4 (Jan. – Aug.)
Number of Wells Drilled	+ 9.6	+13.1	+37.5 (Jan. – Aug.)
Coal Production	+31.7	+14.1	+15.5 (Jan. – Aug.)
CONSTRUCTION			
Urban Dwelling Starts	+54.0	- 15.4	- 14.2 (Jan. – Sept.)
Rigid Insulation Board Shipments to Alberta	+15.6	+ 5.9	- 7.3 (Jan. – Sept.)
Metal Shapes Shipments (Est'd)	- 4.0	+ 7.6	+10.9 (Jan. – Aug.)
AGRICULTURE			
Grain Shipments	+ 8.8	- 2.9	- 17.9 (Jan. – Sept.)
Livestock Marketed	+15.1	- 1.6	- 6.5 (Jan. – Sept.)
Farm Cash Receipts	+ 9.8	+14.0	+36.7 (Jan. – Sept.)
FORESTRY			
Lumber Production	+ 6.1	+16.0	+25.0 (Jan. – Sept.)
Lumber Sales	+34.7	+ 5.7	+16.5 (Jan. – Sept.)
Lumber Exports	+26.5	+24.7	+ 3.9 (Jan. – Sept.)
Pulpwood Production	- 34.9	+47.8	+27.4 (Jan. – Sept.)

UNEMPLOYMENT RATE (Unadjusted)	OCTOBER 1973	SEPTEMBER 1973	OCTOBER 1972	SEPTEMBER 1972
Canada	4.6	4.6	5.2	5.2
Alberta	3.1	3.2	3.7	3.3
CONSUMER PRICE INDEX (1961 = 100)				
Calgary–Edmonton	145.1	145.0	142.0	134.6

Further cut backs are planned at the rate of 5 percent per month until the Israelis withdraw to the 1967 cease-fire line.

Other Middle East producers have cut production by a total of 800,000 barrels a day and the closure of pipelines crossing Syria from Iraq has eliminated another 1.4 million barrels a day. The total shortfall is thus 4.5 million barrels a day.

This pressure has persuaded the EEC to issue a communique urging the Israelis to move back to the 1967 cease fire line. In return the Arabs have exempted all EEC members except the Netherlands from the cut backs. The exemption of the Netherlands is critical for the EEC as a significant proportion of refined products consumed within the other continental European members comes from refineries located in the Netherlands. The Japanese have also reacted by making a statement in the Japanese Diet suggesting that the Israelis withdraw from Arab territory which they have occupied. Whether this will placate the Arabs or not has yet to be revealed. The U.S. seems determined to endure the embargo, as it is in a better position to withstand it than the Japanese and Europeans. The U.S. rely much less on Middle East oil supplies than do Japan and Europe. Only 10 percent of U.S. oil imports are from Arab countries compared with 34 percent for Japan, for example.

While there is no doubt that the U.S. can, in President Nixon's phrase, "tough it out," the question is at what cost? If we have a cold winter like that of 1972–73 when daily oil consumption in the U.S. peaked at 19 million barrels per day (as compared with daily consumption of about 17 million barrels per day in September 1973) then the U.S. may be looking at a maximum shortfall of 3.7 million barrels a day, or 22 percent of total demand, in January 1974.

Part of this shortfall will be met by substituting coal and gas for oil, by drawing on inventories of crude petroleum and petroleum products, which at the end of September were the equivalent of about 50 day's consumption and possibly by increased supplies of petroleum from Venezuela and Nigeria. If Mr. Love, the President's Special Energy Advisor, is correct in believing that one-third of the shortfall can be met in this manner plus voluntary economy measures, that still means consumption may have to be reduced by roughly 2.5 million barrels a day in the peak winter period.

The largest scope for reducing consumption lies in the transport sector, which accounts for around 56 percent of total consumption. Consumption by automobiles alone runs at around 5 million barrels a day. In contrast industrial use amounts to about 3.2 million barrels a day.

The Argus Research Corporation in their Monthly Staff Report for November estimate the shortfall at about 8 percent of total U.S. energy requirements for 1974 if the embargo continues. This implies a shortfall of oil supply of about 16 percent during 1974, about 6 percent less than the maximum shortfall we have roughly estimated for the winter peak consumption period. They offer the view that "...a cut of perhaps five to ten percent in U.S. consumption of energy could well be absorbed without any apparent effect on overall economic activity. Accordingly, we estimate that the maximum impact on total GNP of the oil embargo would be roughly 2 percent on an annual basis."

If the above analysis is correct it has a number of implications for Canada. The energy shortage will not induce a recession in the U.S. in 1974 so that the outlook for Canadian trade with the U.S.A. should not be affected by the oil embargo. (However, this does not mean that a recession may not occur for other reasons with adverse effects on Canadian-U.S. trade). The situation in the EEC is rather more critical, with a significant proportion of its refining capacity sited in the Netherlands which continues to be under the embargo. Industrial production in West Germany will probably be affected and possibly also in France and Belgium. Exports to these countries may therefore be affected, but it will not affect our total export position very much as only 2.5 percent of our exports go to these countries. Finally, a reduction of oil supplies to Japan will have serious effects on the Japanese economy. However, most Canadian (and certainly Albertan) exports to Japan are on long term contracts so that our trade with Japan may not be seriously affected. In conclusion it looks as if the international oil situation will have minimal impact on the Canadian economy, although some inconvenience may be experienced in eastern Canada where a gasoline and heating oil shortage of up to 10 per cent is anticipated.

ALBERTA – BUSINESS OUTLOOK

According to a recent forecast made by Arthur J. R. Smith president of the Conference Board in Canada, the Canadian economy should grow at about 5 per cent in real terms during 1974.

He anticipates that the main growth points will be:

- business investment made to relieve the pressure on capacity under which the economy is presently labouring;
- the building up of inventories which have fallen to very low levels relative to shipments (the ratio of inventories to shipments on a seasonally adjusted basis fell to 1.75 in July, the lowest it has been since 1969);
- expansion of production in the agriculture, forest and mining industries in response to the world commodity shortage;
- consumer spending buoyed up by government transfer payments.

He sees corporate profits declining under the twin pressures of lower productivity growth because of capacity constraints and rising wage and materials costs.

He does not see much relief on the price front and wages and salary advances will accelerate as labour recoups the inroads which this years inflation has made into it's real income.

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